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SUBJECT: NETHERLANDS: COMPANIES SUFFER FROM ECONOMIC DOWNTURN,  
GOVERNMENT DISAGREES ON MEASURES

Ref: (A) THE HAGUE 153, (B) THE HAGUE 154, (C) THE HAGUE 62

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11. SUMMARY: The Netherlands Bureau for Economic Analysis (CPB) released its updated forecast March 17 for a Dutch economy in "deep recession." GDP is predicted to decline 3.5 percent in 2009. Businesses across a number of sectors report they are facing decreasing revenue, fewer orders, and lower profits. Meanwhile, the Government of the Netherlands (GONL) has not reached an agreement on a third stimulus and savings package, which was due to be published March 13 and is now unlikely to be ready before the week of March 123.

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GDP SHRINKING, BUT PURCHASING POWER GROWING  
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12. CPB's forecast changed little from preliminary figures published February 17 (ref A). According to CPB, Dutch GDP - which was approximately 600 billion euro in 2008 - will shrink by 3.5 percent this year and by 0.25 percent in 2010. The biggest driver behind the Dutch economic downturn is the slump in world trade causing Dutch exports to decline by 11.75 percent this year and recover only 1.5 percent in 2010. According to CPB, falling exports account for 3 percentage points of the contraction in GDP.

13. The Netherlands' tight labor market is now loosening due to declining economic activity. Unemployment is expected to increase to 5.5 percent in 2009 and 8.75 percent in 2010. Inflation is expected to remain low, dropping from 2.5 percent in 2008 to 1 percent in 2009 and 2010. This will have a positive impact on purchasing power for average Dutch workers as their negotiated wage agreements assumed higher inflation.

14. The GONL's budget balance is rapidly deteriorating from a surplus of 1.0 percent of GDP in 2008 to a projected 5.6 percent deficit in 12010. Tax revenue will decline, while unemployment benefits will increase substantially. Natural gas revenues also will decline from 2.4 percent of GDP in 2008 to 1.1 percent in 2010. Partly because of the government's interventions in the financial sector, the government's debt to GDP ratio will increase to 62 percent in 2010.

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IMPACT ON DUTCH FINANCIAL SECTOR  
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15. According to CPB, the internationally-oriented Dutch banking sector was an "easy target" when the subprime mortgage crisis started to spread. Foreclosures, domino effects, the infection of other parts of the financial sector, and new bail-out operations

continue to be a real possibility, CPB warned. Moreover, the deep recession is now compounding the financial sector's problems via greater losses on outstanding loans.

¶16. CPB calculated the GONL's bank rescue measures have so far cost 5 percent of the GDP (ref A). CPB advised the government to take several measures to improve the internal governance and domestic financial and macro-prudential supervision of banks, but "the biggest challenge for Dutch policymakers is to ensure that the international regulation of the financial sector improves." CPB added that reducing the role of the government in the Dutch banking sector will be a major national challenge in a later stage.

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DUTCH COMPANIES PESSIMISTIC  
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¶17. Dutch Chambers of Commerce, employers' organization VNO-NCW, Statistics Netherlands (CBS), and the Economic Institute for the Building Industry (EIB) published a mid-March study on the effects of the economic crisis on Dutch businesses and the actions they have taken to date. According to the study, in which 4000 companies participated, companies are much more pessimistic now than even in December 2008. A quarter of the companies are expecting decreasing revenue in Q1 2009, and a third have received fewer orders. Some 21 percent of the companies stated they are having problems of getting credit, especially in the construction, hospitality, and transport sectors. The retail sector is expected to be hit hardest by job losses.

¶18. According to the study, a third of the employers have not yet taken any action to prevent a further worsening of their financial situation. Approximately 20 percent have dismissed temporary personnel, but only 4 percent of the companies have dismissed permanent employees. The study showed that large companies have

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taken more measures than small companies. As a consequence of the crisis, bankruptcies have increased 57 percent during the first two months of 2009, while fewer new companies have been established.

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GOVERNMENT ACTION NEEDED, KEYNESIAN MEASURES RECOMMENDED  
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¶19. Representatives of the three Cabinet parties - Christian Democrats (CDA), Labor Party (PvdA), and Christian Union (CU) - were aiming to publish a third stimulus and savings package on March 13, but had not reached an agreement as of March 19. According to Prime Minister Jan Peter Balkenende (CDA), a package including "far-reaching" measures has been under discussions for weeks. The negotiations are based on an unpublished advisory report by the Secretary General of the Finance Ministry (the ministry's top civil servant), parts of which have been leaked to the press (ref A).

¶10. Bernard Wientjes, chairman of the largest employers' organization VNO-NCW, has called on the GONL to take action quickly, asserting that the government's two earlier stimulus packages have been insufficient (ref C). For example, VNO-NCW is urging the postponement of VAT payments for one month, which could temporarily lighten the load of companies by 3.5 to 4 billion euro.

¶11. To improve the national budget, CPB opined that Keynesian stimulus measures could be the right way forward; however, they should be timely, targeted, and temporary. CPB thus called on the GONL to take measures quickly, as demand has already dropped drastically and stimulus measures normally take a long time to have an effect. These measures should be targeted; otherwise, the benefits will flow abroad through the Netherlands' large export sector. CPB calculated that without the U.S., UK, and German stimulus packages, the Dutch economy would decline an additional 0.5 percent in 2009 and 2010. According to CPB, this shows the importance of international coordination on stimulus measures.

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COMMENT  
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¶12. The Netherlands has been severely hit by the financial crisis, which has now spread to the real economy. As GDP falls, and the Dutch budget deficit and unemployment rise, the GONL is being forced to introduce a third stimulus and savings package. The ruling coalition appears able to agree on the necessary stimulus measures, but it is having difficulty agreeing on savings measures - some of which (for example, raising the retirement age) could prove socially controversial and politically damaging. Nevertheless, the parties are still committed to reaching an agreement. End comment.

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